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DIRECTORATE OF INTELLIGENCE

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WILL PERES BREAK UP THE NATIONAL UNITY GOVERNMENT?

Summary

When Labor and Likud formed the national unity government last September, most Israeli political observers predicted its demise well within two years. Since last fall, there has been a dramatic rise in Prime Minister Peres's popularity and a fall-off in Likud's support fueling speculation that Labor may find a pretext to break up the coalition and form a new Labor-led government without the participation of Likud or at least its Herut wing. [redacted]

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Labor party strategists undoubtedly recognize Labor may lose its current advantages if it maintains the coalition agreement calling for Peres to relinquish the prime ministership to Likud leader Shamir in the fall of 1986. We doubt that Labor leaders have yet devised a strategy to engineer the government's collapse. In our opinion, an optimum time for them to do so, however, would probably be sometime in the next few months. Beyond that point, Israel's economic crisis and a perilous security situation along the border with Lebanon will probably work against Labor. [redacted]

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Peres might try to dissolve the current coalition by seeking the requisite absolute Knesset majority to hold an early national election, but such a precipitate move would pose

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major risks of which he is undoubtedly well aware. He probably would prefer to reconstitute a new, Labor-led government without an early election, but this would first require the collapse of Likud and the defection of Likud's Liberals to the Labor camp. Peres has little independent ability to encourage such a split, however, since it would depend on circumstances largely beyond his control. [REDACTED]

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Peres' Popularity At its Peak?

After years of being vilified as an opportunist and an uninspired leader, Prime Minister Peres is now hailed as the man primarily responsible for Labor's resurgence. Since the election last summer, his personal popularity has soared. A recent poll put his approval rating at over 75 percent. Over 40 percent of the electorate pick him as first choice to be prime minister, compared to only 9 percent who choose Likud leader Shamir. [REDACTED]

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Israelis have been impressed by Peres' personal intervention to obtain labor and management agreement on two short-term economic package deals and by his handling of foreign affairs, including improving relations with Egypt. His positive response to President Mubarak's recent statements on the broader peace process put Likud on the defensive without committing Israel to any specific course of action. Key Likud politicians are increasingly concerned that Peres' performance has reaffirmed Labor in the public mind as the rightful governing party--a status Labor enjoyed from 1948 to 1977. [REDACTED]

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In contrast, Likud is in disarray. Shamir's lackluster performance as Foreign Minister and his inability to protect the economic interests of Likud's bedrock Sephardi constituency have fueled an internecine struggle for power. Commerce Minister Sharon, Deputy Prime Minister David Levy, and Minister-without-Portfolio Moshe Arens are increasingly locked in a battle to succeed Shamir as party leader. [REDACTED]

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Time to Act

Holding to the coalition agreement requiring Peres to turn over the prime ministership to Shamir in the fall of 1986 risks losing Labor's new advantage. Israeli voters, like electorates in most democratic countries, tend to favor the incumbent. Given the chance to govern, Shamir probably would restore some degree of unity in Likud and shore up his party's support among the Sephardim in time for the next scheduled election in 1988. [REDACTED]

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We believe Labor will have an optimum window of opportunity this spring to form a new, Labor-led government without the participation of Likud--or at least its hardline Herut component. Israel's withdrawal from Lebanon probably will be completed by June. Waiting much beyond its completion risks the possibility of a deteriorating cycle of violence in the north. Were that to happen, Likud hardliners like Sharon and Arens would jump at the tailor-made opportunity to attack Labor on the grounds of endangering Israel's security. [REDACTED]

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Israel's economic problems also will increasingly restrict Labor's ability to maneuver. Peres scored points at home for securing two stop-gap economic agreements, but the government has failed to use the breathing space to implement substantive corrective measures for the economy. In a recent poll, only 28 percent gave the government a fully satisfactory rating for its handling of economic affairs, hardling a ringing endorsement of the government's economic program. Moreover, only one in five polled felt the government had a clear economic policy, while three-fourths believed the economy will worsen. [REDACTED]

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Peres so far has managed to distance himself personally from criticism of the government's inaction, but the recent return to monthly double-digit inflation has increased consumer discontent and is undermining the current wage-price agreement. Both problems will increasingly test Peres' leadership and popularity. Peres is unlikely to introduce any major policy moves soon, however, because of the approaching Histadrut elections. Eventually he will have to implement tougher measures that will increase unemployment and erode living standards, a move that will hurt Labor and may enable Likud to minimize its share of responsibility in the public's eye. [REDACTED]

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Getting from Here to There

A move to dissolve the unity government and to schedule an early national election, however, would entail major risks, including gaining the required absolute Knesset majority for an early election bill. If poorly-executed, such action could easily backfire against Labor, as did former Prime Minister Rabin's ill-fated decision to dissolve the coalition and advance the 1977 national election. Rabin's move at that time alienated the National Religious Party, a crucial coalition partner, and paved the way for its alliance with Likud after Likud's historic victory over Labor in the May 1977 election. Peres, who was then Defense Minister, undoubtedly preserves an acute memory of this action. [REDACTED]

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Moreover, despite Peres' personal popularity, a recent poll found only a three percent rise in support for Labor over the 1984 election figure. Other recent polls show that Labor, its coalition ally Shinui, and the Citizens' Rights Movement would win a slim majority in the Knesset, but Peres must be wary of such polls. Three times before--in 1977, 1981 and 1984--he has

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seen substantial Labor leads in the polls evaporate by election time. [REDACTED]

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Part of Peres' popularity, moreover, is based on the perception that he has staked out the high ground in Israeli politics. He has steadfastly and with great apparent sincerity maintained his intention to live up to the coalition agreement. [REDACTED]

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Finding a suitable issue around which to engineer the collapse of the coalition is, therefore, crucial. Many Labor leaders probably hope that the disunity within Likud and an overt attempt to remove Shamir from his leadership position will lead to a dissolution of the coalition agreement. According to press reports, a secret understanding between Labor and Likud stipulates that only Shamir can succeed Peres as prime minister. [REDACTED]

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Given Israeli voter volatility, Peres probably hopes he will be able to restructure the coalition without resorting to a new election. We believe there are at least two ways in which this might occur:

- An intensifying power struggle in the Likud splits its factions. Merger talks between the Herut and Liberal factions have already begun to founder, and we believe that many in the Liberal camp would bolt from Likud if Sharon succeeds Shamir.
- Likud splits over a substantive issue, most likely the peace process. Again, many Liberals appear inclined to support Peres's more pragmatic approach over that of the Likud hardliners. [REDACTED]

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In either case, Peres would probably call on the Liberals, the religious parties, Shinui, MAPAM, and the Citizens' Rights Movement to join with Labor. Such a coalition would easily command a majority in the Knesset. [REDACTED]

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Peres has little ability to encourage such a split in Likud, however, since it depends on circumstances largely beyond his control. He has assiduously cultivated relations with Finance Minister Modai, the leader of Likud's Liberals, and doubtless will continue to do so in hopes of encouraging Liberal defections from Likud should Liberal-Herut ties become seriously strained. [REDACTED]

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